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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 003690

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DEPARTMENT FOR THE SECRETARY, NEA

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SUBJECT: IRAQ, PEACE PROCESS WILL DOMINATE DEAD SEA WEF MEETING

Classified By: Ambassador Edward W. Gnehm for Reasons 1.5 (b), (d)

SUMMARY

1. (C) In hosting the second World Economic Forum (WEF) meeting at the Dead Sea, King Abdullah hopes to promote Jordan as an island of political stability and economic opportunity in the region, and portray himself as both a peacemaker and deal-maker. Your participation underscores U.S. support for Jordan and the King in achieving that goal (and has significantly raised the profile of this WEF). The region you walk into, however, is less optimistic, and Jordanians are confused, angry, and -- in a few quarters -- somewhat encouraged by U.S. policy in the region. The upcoming Arab League summit in Tunis has renewed the focus on regional reform efforts, of which Jordan has played a leading role. The Abu Ghreib revelations, however, have shaken Jordanian popular confidence in the moral underpinning of not only U.S. policy, but American society, and this has consequently hurt our efforts to promote reform in the region. The GOJ continues its strong support to rebuild Iraq, but the King still believes a complete transfer of sovereignty on June 30 is premature. The number one topic in Jordan remains the Israel-Palestine conflict, with the Jordanian mood swinging optimistic or pessimistic in tandem with perceived U.S. action (or inaction) and movement on the peace process. The King's recent Washington trip was hailed here as a diplomatic victory that protected Jordan's interests and helped the Palestinians, but the President's subsequent statement to the Arab press that a Palestinian state by 2005 is "unrealistic" blunted the positive reaction. As the recently uncovered Zargawi plot against Jordanian and U.S. targets in Amman shows, Jordan is a victim of terrorism and will continue its close cooperation with the U.S. END SUMMARY.

FLASHES OF ANGER -- AND HOPE -- ON THE PEACE PROCESS

2. (C) The Palestinian-Israeli conflict remains at the top of the agenda for most Jordanians, who look to the United States to make good on its May 6 "assurances" to King Abdullah to protect Jordan's interests in the region. The King's visit was seen here as a diplomatic victory which balanced what most here perceive as a U.S. policy tilted towards Israel, but Jordanians were disappointed by President Bush's remarks to an Egyptian daily that a Palestinian state by 2005 is "unrealistic." The King and other Arab leaders at the WEF will press for concrete U.S. steps to improve the status quo and rein in Israeli military actions, particularly home demolitions, the tight closure of the West Bank and Gaza, and targeted killings. The IDF military operations and violence in Gaza this week provide an alarming backdrop to the meeting.

GROWING DISMAY OVER IRAQI SITUATION

3. (C) The Iraqi prisoner abuse scandal and ongoing instability in Iraq continue to dominate Jordanian and Arab media. Outraged by the graphic and offensive nature of the Abu Ghreib photographs, the crisis has struck a deeply sensitive chord in this conservative and religious society. Outside the Jordanian military, most believe the problem is systematic and not the work of a "few bad apples," and the scandal has contributed to widespread questioning not only of U.S. policy in the region, but also of the moral underpinning of American society. Some of our closest partners on our reform agenda have said the prisoner abuse scandal has caused "irreparable" damage to those efforts and our image. Continued violence in Iraq and uncertainty over the political transition is of increasing concern as June 30 approaches. Put off by perceived heavy handed tactics of the U.S. military in Iraq and insensitivity towards Iraqis -- exacerbated by the abuse scandal and tensions in Fallujah and Najaf -- popular calls for a speedy U.S. departure are mounting, as is support for the Iraqi "resistance." By contrast, the King believes that the June 30 transfer date may be premature and will caution the U.S. to consider that

move very carefully.

REFORM EFFORTS CHUG ALONG

14. (C) The GOJ has taken a leading role in advocating reform in Jordan and in the region. While insisting that reform not be imposed from the outside, the GOJ has been receptive to the Greater Middle East Initiative and is working within Arab League parameters to advance a reform agenda during the Arab League summit in Tunis on May 22. A recurring refrain from Arabs is that a political solution to the Palestinian-Israeli conflict must be realized so that true reform efforts can succeed. While political and social reform efforts in Jordan move forward, the Abu Ghreib scandal has seriously hurt our ability to sell social and political reform in the region -- particularly on human and women's rights. However, there have been a few public voices who point to the U.S. military and congressional investigations into Abu Ghreib as a positive aspect of the American democratic system worthy of emulation (implicitly noting the lack of such a system of accountability in the region). A complete investigation and punishment of offenders could over time help rectify the damage done to America's image.

JORDAN'S ECONOMY -- GOING STRONG; U.S. TOP TRADE PARTNER

15. (C) Jordan's economy continues to strengthen. After growing by 3.3% in 2003, that rate is expected to accelerate in 2004 with some analysts predicting it may reach 5%. Trade continues to boom, with Jordan's exports up 29% in the first quarter of 2004 over the same quarter the previous year. The U.S. is Jordan's top trading partner and the two-way trade in 2003 exceeded \$1 billion. Thanks to economic reforms enacted by the King, Jordanian exports to the U.S. under the FTA are growing at a faster rate than those under the Qualified Industrial Zones, which manufacture products with both Israeli and Jordanian content. Jordan has also signed an Association Agreement with the European Union and a regional trade association with Tunisia, Morocco and Egypt known as the Agadir Agreement. On the fiscal side, Jordan's total public debt stands at 92.4% of the estimated GDP for 2004, down from a high of 111.3% in 1999. Jordan will be graduating from its IMF program in July. Finally, Jordan continues to be helpful in recovering frozen Iraqi assets, returning over \$235 million to the Development Fund for Iraq and promising to transfer more funds shortly.

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